

Message Text

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ACTION NEA-16

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-07 H-03 INR-11 L-03

NSAE-00 NSC-07 PA-04 RSC-01 PRS-01 SP-03 SS-20

USIA-15 AID-20 COME-00 EB-11 FRB-03 TRSE-00 XMB-07

OPIC-12 CIEP-02 LAB-06 SIL-01 OMB-01 SWF-02 DRC-01

/158 W

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R 181331Z JUL 74

FM AMEMBASSY NEW DELHI

TO SECSTATE WASHDC 2766

INFO AMEMBASSY DACCA

AMEMBASSY KATHMANDU

AMCONSUL BOMBAY

AMCONSUL CALCUTTA

AMCONSUL MADRAS

UNCLAS NEW DELHI 9604

E.O. 11652: N/A

TAGS: EFIN IN

SUBJECT: ANOTHER COMPULSORY DEPOSIT ORDINANCE TO CONTROL
INFLATION

REF: NEW DELHI 9057

NEW DELHI A-277

1. FOLLOWING UPON THE JULY 6 PROMULGATION OF THE FIRST TWO
ANTI-INFLATIONARY ORDINANCES, THE GOI ON JULY 17 ISSUED ANOTHER
PRESIDENTIAL DECREE "THE COMPULSORY DEPOSIT SCHEME (INCOME-TAX
PAYERS) ORDINANCE, 1974". WE WILL TRANSMIT THE TEXT WHEN IT IS
RELEASED BY GOI.

2. THE ORDINANCE REQUIRES INCOME TAX PAYERS WITH ANNUAL TAXABLE
INCOME OVER RS. 15,000 (DOLS 1,875) TO DEPOSIT WITH DESIGNATED
NATIONALIZED BANKS AND THE RESERVE BANK OF
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INDIA A PART OF THEIR INCOME EARNED DURING IFY 1974/75 AND IFY

1975/76. THE RATE OF DEPOSIT IS 4 PERCENT FOR GROSS INCOMES BETWEEN RS. 15,000 AND RS. 25,000; 6 PERCENT FOR INCOMES BETWEEN RS. 25,001 AND RS. 70,000; AND 8 PERCENT FOR INCOMES OVER RS. 70,000. THE DISPOSITION OF THE ADDITIONAL DEPOSITS WITH THE BANKS HAS NOT YET BEEN ANNOUNCED. THEY WILL PROBABLY BE STERILIZED IN SOME WAY AND THE INTEREST WILL BECOME A CHARGE ON THE TREASURY. FOREIGN NATIONALS ARE EXEMPT FROM THE COMPULSORY DEPOSIT REQUIREMENT.

3. THE DEPOSITS WILL CARRY AN 8.5 PERCENT ANNUAL INTEREST RATE AND WILL BE REPAYED OVER A FIVE-YEAR PERIOD COMMENCING TWO YEARS AFTER THE DATE OF DEPOSIT. THE DEPOSITORS WILL RECEIVE NO TAX BENEFITS IN THE YEAR OF DEPOSIT BUT DEPOSITS WILL BE TAX EXEMPT WHEN WITHDRAWN. ANY DEPOSITS MADE UNDER THE JULY 6 ORDINANCE ON WAGES AND COST-OF-LIVING ALLOWANCES WILL BE DEDUCTED IN CALCULATING THE AMOUNT TO BE DEPOSITED UNDER THE PRESENT ORDINANCE.

4. THE GOI ESTIMATES THAT THE NEW ORDINANCE WOULD RESULT IN "IMMOBILIZING" OR TAKING OUT OF CONSUMER HANDS APPROXIMATELY RS. 500 MILLION (DOLS 62 MILLION) IN IFY 1974/75 AND RS. 600 MILLION (DOLS 75 MILLION) IN IFY 1975/76. MEANWHILE THE GOI HAS ANNOUNCED INTENSIFIED EFFORTS TO CHECK THE CONSIDERABLE TAX EVASION AMONG PROFESSIONAL GROUPS, SUCH AS DOCTORS, LAWYERS, ENGINEERS AND JOB CONTRACTORS. A GOVERNMENT SPOKESMAN INDICATED ON JULY 17 THAT ROUGHLY 50 PERCENT OF SUCH PROFESSIONALS SUBJECT TO INCOME TAX WERE NOT FILING PROPER RETURNS.

5. THIS IS THE SECOND TIME THAT THE GOI HAS INTRODUCED A COMPULSORY DEPOSIT SCHEME. AN EARLIER 1963 FIVE-YEAR DEPOSIT SCHEME WAS DESIGNED TO MOBILIZE RESOURCES TO MEET ADDITIONAL DEFENSE AND OTHER REQUIREMENTS AFTER THE 1962 CONFLICT WITH CHINA. KREISBERG

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: INFLATION, ANTIINFLATIONARY PROGRAMS, BANK DEPOSITS
Control Number: n/a
Copy: SINGLE
Draft Date: 18 JUL 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974NEWDE09604
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740193-0761
From: NEW DELHI
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740738/aaaabgin.tel
Line Count: 94
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION NEA
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: NEW DELHI 9057
Review Action: RELEASED, APPROVED
Review Authority: martinjw
Review Comment: n/a
Review Content Flags:
Review Date: 02 OCT 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <02 OCT 2002 by ThomasVJ>; APPROVED <16 JAN 2003 by martinjw>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ANOTHER COMPULSORY DEPOSIT ORDINANCE TO CONTROL INFLATION
TAGS: EFIN, IN
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005